Ask Me About?

New Job? New W4 for withholding taxes?

Do you have stocks or mutual funds that you are planning to sell that have greatly increased in value? Have you owned those assets longer than 1 year?

Thinking of claiming a parent as a dependent? The rules are tricky!

Starting distributions from a retirement plan? Lump-sum distribution possibilities? What are the tax consequences?

Questions about making a Qualified Charitable Distribution from your Required Minimum Distribution (RMD)? Specific rules apply.

Increased Mileage Deductions for 2022

For the final 6 months of 2022, the standard mileage rate for business travel will be 62.5 cents per mile, up 4 cents from the rate effective at the start of the year. The new rate for deductible medical or moving expenses (available for active-duty members of the military) will be 22 cents for the remainder of 2022, up 4 cents from the rate effective at the start of 2022. These new rates become effective July 1, 2022. It is important to note that under the Tax Cuts and Jobs Act, taxpayers generally cannot claim a miscellaneous itemized deduction for unreimbursed employee travel expenses on the federal return as before. Taxpayers also cannot claim a deduction for moving expenses, except members of the Armed Forces on active duty moving under orders to a permanent change of station.

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Your Tax Calendar

Sept 15 3rd quarter estimated tax payments due.

By Oct 1 Deadline to establish a Simple IRA for self-employed or small businesses.

Oct 17 Extended Individual Tax Returns for 2021 due.

Jan 16 2023, 4th quarter estimated tax payment due.

Call any time if you have questions.

Injured Spouse Relief

You may be an injured spouse if you file a tax return and all or part of your portion of a refund was, or is expected to be, applied to your spouse's legally enforceable past due financial obligations. These financial obligations could be child support, spousal support, past due taxes, or student loans. To be considered an injured spouse, you must have paid federal income tax or claimed a refundable tax credit, such as the Earned Income Credit on a joint return and are not legally obligated to pay the past-due debt. Special rules apply in community property states. If you filed a joint return and you're not responsible for the debt, but you are entitled to a portion of the refund, we can request your portion of the refund by filing Form 8379, Injured Spouse Allocation. We will file Form 8379 along with your original tax return or we can file it by itself after you receive an IRS notice about the offset.

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TAX NEWS & TIPS

FALL 2022

Summer Is Ending!

What Tax Advantages Are Available For Claiming Dependent College Students?

Education Credits

First, college students can still be claimed as dependents by their parents if they are under age 24 and a full-time student for at least five months of the year.

There are two different credits available for college tuition and related fees.

The American Opportunity Tax Credit Is:

- Worth a maximum benefit of up to $2,500 per eligible student.
- Only available for the first four years at an eligible college or vocational school.
- For students pursuing a degree or other recognized education credential.
- Partially refundable. Taxpayers could get up to $1,000 back.

The Lifetime Learning Credit Is:

- Worth a maximum benefit of up to $2,000 per tax return, per year, no matter how many students qualify.
- Available for all years of postsecondary education and for courses to acquire or improve job skills.
- Available for an unlimited number of tax years.

There are taxpayer income limits applied to these credits. To claim the full credit, your MAGI, modified adjusted gross income must be $80,000 or less ($160,000 or less for married taxpayers filing jointly). If your MAGI is over $80,000 but less than $90,000 (over $160,000 but less than $180,000 for married taxpayers filing jointly), the amount of your credit is reduced. If your MAGI is over $90,000 ($180,000 for married taxpayers filing joint), you can't claim the credit.

Student Loan Interest

You can take a tax deduction for the interest paid on student loans that you took out for yourself, your spouse, or your dependent. This benefit applies to all loans (not just federal student loans) used to pay for higher education expenses. The maximum deduction is $2,500 a year.

Student loan interest is deductible up to the limit if your modified adjusted gross income, or MAGI, is less than $70,000 ($145,000 if filing jointly). If your MAGI was between $70,000 and $85,000 ($145,000 and $175,000 if filing jointly), your deduction will be less than the maximum $2,500. Over these MAGI limits ($85,000 single and $175,000 married filing joint) no deduction is allowed.

Savings Bonds

The interest on Savings Bonds Series EE or Series I can become exempt from federal taxes when used to pay college tuition for a dependent. EE bonds must be issued after 1989 (all I bonds are eligible). The bonds must be issued either in your name or in both your name and your spouse's name as co-owners (a dependent may be listed as a beneficiary but not as an owner). Plus, you must have been at least 24 years old at the bonds' issue date. The tax exclusion begins to phase out for those with modified adjusted gross income (MAGI) exceeding $85,800 ($128,650 for joint returns) for the 2022 tax year, and it disappears when MAGI reaches $100,800 or more ($158,650 for joint returns). If you're married, you must file a joint return to exclude bond interest from income. And education expenses must be incurred in the same tax year that the bond is redeemed.

Educator Expenses

For the 2022 tax year, teachers and other educators who dig into their own pockets to buy books, supplies, COVID-19 protective items, and other materials used in the classroom can deduct up to $300 of these out-of-pocket expenses ($250 for 2021). The maximum deduction for 2022 jumps to $600 for a married couple filing a joint return if both spouses are eligible educators – but not more than $300 each.

An "eligible educator" is anyone who is a kindergarten through 12th grade teacher, instructor, counselor, principal, or aide in a school for at least 900 hours during a school year. Parents that are homeschoolers are not eligible for this deduction.

Alimony… Taxable? Deductible?

The date of the divorce matters. If you finalized your divorce before January 1, 2019, the spouse paying support may report the payments as a tax deduction, and the recipient must report and pay taxes on the alimony as income (unless your support agreement or court order says otherwise). For couples whose divorce was pending on or after January 1, 2019, the Internal Revenue Service (IRS) no longer treats spousal support payments as income to the spouse who receives it, nor does it allow the paying spouse to take a tax deduction for alimony paid each year. If the divorce was before 2019, but you went back to court & substantially changed the agreement later, you may now be covered under the new rules. Be careful! Call me.

Inside This Issue

Tax Tips For You.. *Now!*

Here are 5 popular items that affect many taxpayers. You should review them now to lower your tax bill for 2022 or to reduce the possibility of a large tax due bill. The sooner you act, the more that you could save!

✔ *Start or Increase Retirement Plan Contributions*

The normal contribution limit for a 401(k), 403(b) or 457 deferred compensation plan is $20,500 in 2022 (by 12/31/22). Employees age 50 or older may contribute up to an additional $6,500 for a total of $27,000.

✔ *Maximize Contributions to Individual Retirement Accounts (IRAs)*

The contribution limit for Traditional IRA remains the same in 2022 (by 4/18/2023) at $6,000. Employees age 50 or older are eligible to contribute an additional $1,000, for a total of $7,000. There are income and other eligibility limitations.

✔ *Start Contributions to a Dependent Care Benefit Plan*

The maximum amount you can put into your Dependent Care FSA for 2022 is $5,000 for individuals or married couples filing jointly, or $2,500 for a married person filing separately.

These accounts – provided by your employer – allow you to set aside pretax money from your paycheck to help pay qualified, out-of-pocket childcare costs like your nanny's wages, daycare, preschool, summer day camps, and before or after school programs. Also, some expenses for elderly parents.

The funds may be used to cover care expenses for children under the age of 13 or who are incapable of self-care and live with you for more than half the year.

✔ *Review Your Stock & Mutual Fund Portfolio*

Consider selling some of your losers to offset gains on sales of your winners. You can claim a net $3,000 loss on your tax return. You may even qualify for a 0% tax rate on capital gains if you have a net gain and your total taxable income is less than $41,675 for single filers, $55,800 for head of households and $83,350 for joint returns.

✔ *Start or Increase Contributions to Health Savings Accounts*

The annual cap on deductible contributions to health savings accounts (HSAs) rose in 2022 from $3,600 to $3,650 for self-only coverage and from $7,200 to $7,300 for family coverage. People born before 1968 can put in $1,000 more (same as for 2021).

Qualifying insurance policies must limit out-of-pocket costs in 2022 to $14,100 for family health plans ($14,000 in 2021) and $7,050 for people with individual coverage ($7,000 in 2021). Minimum policy deductibles remain at $2,800 for families and $1,400 for individuals.

How Long Should Tax Records be Kept?

Well-organized records make it easier to prepare a tax return and help provide answers if your return is selected for examination or if you receive an IRS notice.

You must keep records, such as receipts, canceled checks, and other documents that support an item of income, a deduction, or a credit appearing on a return if they may become material in the administration of any provision of the Internal Revenue Code, which generally will be until the statute of limitations period expires for that return.

❑ Period of limitations for assessment of tax:

3 years - For assessment of tax you owe, this period is generally 3 years from the date you filed the return. Returns filed before the due date are treated as filed on the due date.

No limit - There's no period of limitations to assess tax when you file a fraudulent return or when you don't file a return.

6 years - If you don't report income that you should have reported, and it's more than 25% of the gross income shown on the return, or it's attributable to foreign financial assets and is more than $5,000, the time to assess tax is 6 years from the date you filed the return.

❑ Period of limitations for refund claims:

The later of 3 years or 2 years after tax was paid - For filing a claim for credit or refund, the period to make the claim generally is 3 years from the date you filed the original return (or the due date for filing the return if you filed the return before that date) or 2 years from the date the tax was paid, whichever is later.

7 years - For filing a claim for an overpayment resulting from a bad debt deduction or a loss from worthless securities, the time to make the claim is 7 years from when the return was due.

❑ Real Estate Property Records

Keep records relating to real property until the period of limitations expires for the year in which you dispose of the property in a taxable disposition. You must keep these records to figure your basis for computing gain or loss when you sell or otherwise dispose of the property.

Remember, all of these are Federal Tax Time Limitations. Each state has their own requirements that may be different. Let me know if you have specific state time limitations questions.

Uh-Oh… *An IRS Letter!*

If you get a letter from the IRS, try not to panic, just call me. The letters can be confusing and intimidating. Don't risk making an even bigger mess! We can handle it together.

Myth vs. Truth

Myth:
My wife and I plan to deduct a $600 cash charitable contribution on our 2022 Federal Income Tax Return even though we won't be itemizing these deductions on Schedule A.

Truth:
False. The tax provision allowing a deduction for taxpayer charitable deductions not itemizing deductions on Schedule A was available for the 2020 & 2021 tax years only.

Myth:
I am allowed a $3,000 Child Tax Credit for my 17-year-old daughter in 2022.

Truth:
False on two accounts! The credit reverts to the pre-2021 amount of $2,000 **and** the age requirement also reverts to pre-2021 limits of **under** 17 years old.

Myth:
My husband and I plan to have $10,500 withheld from our paychecks through our employer's Dependent Care Plan.

Truth:
False. This limit was available for the 2021 tax filing year only. The maximum amount allowed in 2022 is $5,000.

Extensions Expire October 17, 2022

A few of you may not have filed for 2021 yet and have your return on an extension. Please make every effort to find remaining missing forms or information. We have little time remaining to file your return. Contact me when you are ready. Let's file as soon as possible… no reason to wait until the deadline!

Oh No! I Forgot…

If you forgot some key information when we filed your tax return earlier this year, I can still file an amended tax return. You generally have 3 years after the filing deadline to change your return. Call me if you have discovered tax documents or information that you originally omitted from a previous return.

Cancellation of Debt 1099-C

A lot of people don't even know the 1099-C Cancellation of Debt form exists, so it can be a shock to receive one. What should you do when you receive a 1099-C and how can you determine whether your debt is excluded from debt settlement taxes?

If you have credit card debt, foreclosures or personal installment loans of $600 or more canceled by the lender, that lender is required to file Form 1099-C with the IRS. The lender is also required to send you a copy of the 1099-C Cancellation of Debt form so you can use it when you file your annual taxes. If the debt on your 1099-C Cancellation of Debt form does not fall into one of the IRS's excluded categories, you might owe debt forgiveness tax. Call me and we can discuss the particulars.

Review Your Federal Tax Withholding… *Again!*

Each year it is good practice to complete a review of your federal withholding taxes. If you were surprised or disappointed in your recent federal tax refund or you experienced the pain of an unexpected tax balance due…there is still time to act.

Some taxpayers will want to adjust the amount of money that's being withheld by their employers by updating their W-4 forms. If they don't, some risk another year of smaller than expected refunds or even the heartbreak of an unexpected tax balance due to the IRS.

Many different outcomes are possible because of the unique circumstances in a taxpayer's life that influence the appropriate withholding. The changes that take place in the withholding tables to account for tax changes do not mean that we are all set.

Many tax provisions that gave taxpayers larger credits and deductions for 2021 have expired and are not available to taxpayers for 2022. These provisions were put into place to offset the financial concerns brought on us by COVID-19. Reduction in credits for the Child Tax Credit, Earned Income Credit and Child & Dependent Care Credit have for the most part returned to the pre-2021 laws.

The IRS encourages everyone to use their Withholding Calculator to perform a quick "paycheck checkup." The calculator is available at www.IRS.Gov.

The calculator helps you estimate your tax withholding to make sure that you have the right amount of tax withheld from your paycheck at work.

If you are an employee, the Withholding Calculator helps you determine whether you need to give your employer a new W-4, Employee's Withholding Allowance Certificate. You can use your results from the Calculator to help fill out the form and adjust your income tax withholding. If you receive pension income, you can use the results from the calculator to complete a Form W-4P and give it to your payer.

Warning! The IRS calculator requires you to:

- Gather your most recent paystubs

-and-

- Have your most recent tax return handy.

Keep in mind that the Calculator's results will only be as accurate as the information you provide.

If you need help with reviewing your federal withholding, call me. This could be one of the most important planning exercises for you to complete as soon as possible.